

REVENUE QUALITY CONTROL

QUESTIONS AND ANSWERS

December 1994

Tax Function: FORM ETA 581
Problem Type: Misc. (See attached 581 Form)

Question 1. We recommend Q&As for the Form ETA 581.

Answer: This is a good idea. Questions concerning 581 reporting will be included in RQC Q&As. These will be distributed via UIPL to all States with instructions to distribute to the SESA Tax staff, RQC Reviewers, appropriate DP staff and the agency organizational unit responsible for the accuracy and completion of the revised ETA 581 report. Also, in order to cover current concerns and those that may surface after the revised form is in use, preparation of a Reports and Analysis Letter (RAL) on the ETA 581 is being considered after States have gained some experience (2-3 quarters) in using the revised form.

Question 2. Will NO provide training when the revised ETA 581 is finalized?

Answer: At present, there are no plans for a formal training session on the revised form. If there are remaining questions and comments on the revision, States should continue to contact the appropriate regional office representatives.

Tax Function: FORM ETA 581 REPORT

Problem Type: Report Delinquencies (See attached 581 Form)

Question 1. Subsidiaries not counted as active employers who may be identified as delinquent employers (reports and monies):

(a) Can they be counted in Report Delinquencies and in A/R?

(b) What is the definition for multi-unit employers?

Note: The following answer supersedes the answer to question #8 in RD Computed Measures which was issued in February, 1994. (This Q&A is also included in RQC R/D Computed Measures question #13.)

Answer:

(a) If there is a report delinquency or receivable amount attributed to one unit of a multi-unit employer, the entire account is delinquent. Each unit is not counted separately but is considered jointly with the employer's other units as one report delinquency and one receivable amount attributable to one employer account.

(b) A multi-unit employer is an employer whose business is separated by location and/or organization into units, and units may or may not submit individual contribution reports under the same employer account number.

Question 2. Clarify items 12 and 13 on the ETA 581.

Answer: Item 12 includes the count of all contribution reports outstanding for the immediately preceding quarter, regardless of whether the employer has been issued an assessment, and outstanding contribution reports for all other prior quarters for which a receivable amount (legally collectible and enforceable) has not been established and included in the receivables total on line 401.

Item 13 is an uninflated estimate of the amount of contributions due on the number of contribution reports in item 12. The instructions for item 13 suggest two methods of calculating this estimate.

Question 3. (a) How do you treat an assessment which is resolved by a lien, levy, or payment? How does this affect item #13?

(b) What is the rationale for requesting this information?

Tax Function: FORM ETA 581
End of Quarter Employers (See attached 581 Form--Item #1-3)

Question 1. Can you count both predecessors and successors at the end of the quarter as active employers if both are required to file reports during the quarter?

Answer: The intent is to count the number of active employers at the end of the quarter. In the case of a "complete" transfer of the business during the quarter, the predecessor should not be included in the count of employers at the end quarter because the predecessor is no longer in business at that time, even if required to file a report for the quarter. If the transaction is a partial transfer and the predecessor remains in business, and the predecessor and successor are required to file reports, both parties should be included in the count of employers.

Question 2. Can you also count inactive accounts that were active during the quarter?

Answer: No, the count is of the number of active employers at the end of the quarter.

Question 3. Some States believe that there is a discrepancy between "Item by Item" instructions for items 1 and 2 and the definition of "Active Employer". Which is the correct way to count--(a) or (b)?

(a) Some States have programmed their computers to count all active employers as of the last day of the quarter. They define an active employer as an employer who owes a report for that quarter.

(b) Other States have programmed their computers to count all active employers on the last day of the quarter and define active as actually being in "active status" on the last day of the quarter.

Answer:

(a) States that define "active" employer based simply on whether the employer owes a report for a specific quarter, improperly disregard other transactions (e.g., made inactive) which may have occurred during the quarter which determine the employer's status by the time the count is taken at the end of the quarter. It is possible for an employer to be required to file a report for a specific quarter and become inactive by the end of the same quarter. Therefore, it is incorrect to use the "report requirement" as the only defining factor for determining the Status of an employer when the count of active employers is taken. See Item by Item instructions F1 which states that employers who have been inactivated or terminated should not be included.

Tax Function: FORM ETA 581
End of Quarter Employers--Continued (See attached 581 Form--
Item #1-3)

(b) Item (b) is the correct way to count the number of active employers--programming which considers "actual status" and counts the number of active employers on the last day of the quarter.

Note: In the revised ETA 581 instructions issued in October of 1994, the definition for "inactive employer" no longer includes the phrase stating when the inactive status should become effective in cases (a) and (b) of the definition. This means that when an employer is made inactive, his/her status as such becomes effective as of the date of the transaction (or the date specified by the State) not the first day of the following quarter. In case (c) of the definition, the effective date has been changed to the last day of the eighth quarter for a which "no wages" report was filed. Therefore, an employer who becomes inactive during a specific quarter is not included in the active employer count at the end of the quarter, even though she/he may have been required to file a report for the same quarter.

Tax Function: FORM ETA 581
Report Delinquencies--Continued (See attached 581 Form)

Answer:

a) An outstanding contribution report for the immediately preceding quarter with an assessment is counted in item 12 and an estimate for it is included in item 13. If at a later date, the assessment becomes final, "legally collectible and enforceable" and included in the receivables total or is resolved by a lien or payment, then the contribution report is not counted in item 12 and an estimate for it is not included in item 13.

(b.) Items 12 and 13 were mandated for inclusion on ETA 581 by the Labor Department's Office of the Inspector General (OIG).

Tax Function: FORM ETA 581

Problem Type: Receivables (See attached 581 Form)

Question 1. How will SESAs handle accounting related to the removal of older receivables from the receivables balance? (Items 25 and 37)

Answer: The removal of older receivables from the receivables balance is only for ETA 581 reporting purposes. Since some States have no provision in their laws to declare older accounts receivable as uncollectible, ETA does not want to include such amounts in the receivable balance when in fact they are, in some cases, many years old and chances for collection are almost nil. States should continue to treat these amounts as is their usual practice (pursue collection, declare uncollectible, etc.). If such an amount is later declared uncollectible, do not reenter the amount in Item 24 or 36 (declared uncollectible) or any related transaction on the ETA 581 since the amount has been already been deducted from the receivable balance in Item 25 or 37 on an earlier report. If such amount or any portion is later collected, a receivable (in the amount collected) is reestablished in item 22 or 34 and liquidated in Item 23 or 35.

Question 2. How should amounts that were previously reported on the ETA 581 as uncollectible be accounted for when payment is subsequently received? Should these amounts be reestablished as receivables in item 22 and liquidated in item 23?

Answer: Yes, to reestablish the receivable, the amount should be included in items 22 or 34 (amount determined receivable). Items 23 or 35 (receivables liquidated) should be increased by the same amount.

Note that the instructions for Item 22 and the definition of liquidated include "adjustments" which relate to the transactions described in the question.

Question 3. Refer to HB 401, pages II-2-15 II-2-18 "Negative amounts cannot be entered in the age categories on this line." Does this mean don't include outstanding credits or overpayments?

Answer: No this means that the total entries for these items cannot be negative numbers. The age categories on lines 402 and 404 separate the amount of total receivables in Items 26 and 38, respectively, according to the time periods specified. Since the amounts in items 26 and 38 are always positive numbers, the entries on lines 402 and 404 which indicate what portion of total receivables are of a specific age, must also be positive numbers. Overpayments and credit amounts are already accounted for in transactions on lines 401 and 403 which are used to compute total receivables.

Tax Function: FORM ETA 581

Problem Type: Receivables-Continued (See attached 581 Form)

Question 4. When must States start providing data for Items 25 and 37? This may require additional programming in order to collect the information. Why is this information needed?

Answer: The revised ETA 581 report for the quarter ending March 31, 1995, is initially due on May 20, 1995. Revisions to the report have been approved by the Office of Management and Budget (OMB). Since the ETA 581 is a required report, as authorized under Section 303 (a)(6) of the Social Security Act, reporting of all items on the revised form is mandatory beginning with the report for the quarter ending March 31, 1995.

The change related to the reduction of older receivables was made in response to OIG concerns about the collectibility of older amounts and their distortion of the balance of receivables. The reductions of older amounts from the accounts receivable balance reduces the total to the true receivables, i.d., those amounts for which the likelihood of collection is greater. This reduction will also facilitate an allowance for those States which cannot legally declare receivable amounts uncollectible.

Accounts receivable has also been of special interest to the National Performance Review Project championed by Vice President Gore.

Question 5. Please clarify "Declared Uncollectible" - Example: If an AR of \$500 is declared uncollectible, and then \$300 is collected, how should these items be handled? Which is correct (a) or (b)?

(a) Increase \$300 A/R and increase \$300 in liquidated A/R?
or

(b) Reduce declared uncollectible by \$300, and receivables liquidated A/R by \$300?

Answer: (a) is correct. Increase Item 22 or 34 (amounts determined receivable) by \$300 and increase Item 23 or 35 (receivables liquidated) by \$300. The \$200 difference was negated when the original \$500 was declared uncollectible.

Tax Function: FORM ETA 581

Problem Type: Field Audit (See attached 581 Form)

Question 1. Field Audits, Item 47 (calendar quarters audited) says "Do not include quarters in which adjustments were made without auditing." Does item 47 have to correlate to hours spent on audit and to change audits (amounts over and under reported)?

Answer: A calendar quarter to which an adjustment was made but was not included in the formal scope of the audit, cannot be counted as an audited quarter, even though the adjustment was made as a result of the audit. There is no set ratio of calendar quarters audited to hours spent auditing or to the number of change audits. For example:

If an audit was conducted on an employer's 1993 records which included verification of payroll and a search for misclassified wages, the pre-and post-audit wages for these quarters would be included on the 581. If an adjustment was made due to a newly uncovered Christmas bonus paid in 1992, but no search for misclassified wages was made for that quarter, neither the 1992 quarter nor the 1992 dollars should be included in Item 47 (calendar quarters audited), Items 48 and 49 (total wages audited) or in Items 52-57 (amounts over reported and underreported). The time spent to find the 1992 Christmas bonus should not be included in Item 51 (hours spent in auditing).

Question 2. If a field auditor's supervisor accompanies the auditor, do you also count his/her time in Item 51 (hours spent auditing)?

Answer: If the supervisor accompanies the auditor for reasons other than to actually conduct the audit (observation, training, evaluation of performance, etc.) then his/her time should not be counted as time spent in auditing.

TAX RATES (ACCOUNT MAINTENANCE)
Acceptance Sampling

Question 7. There is a need to add a statement in the Acceptance Sample instructions that tells the Reviewer to pull quarterly charge statements and contribution reports for the 4 most recent quarters of the calculation period.

Answer: The instructions are being amended to show that the review needs all report forms received for the most recent 4 quarters and all benefit charge statements for the most recent 4 quarters of the calculation period.

Function: FIELD AUDIT

Problem Type: Acceptance Sampling (continued)

Question 30. The rationale for question #5 (misclassified wages) states..."Likewise, the extent of the business may indicate multi-state employment, and may require that the auditor's investigation ensure the employer reported employees to the appropriate State." What does the auditor do and what does the reviewer do to verify what has been done?

Answer: The Reviewer will need to confirm that the auditor has done whatever the SESA policies and procedures require when it comes to initiating out of State contact.

Function: FIELD AUDIT
Problem Type: Acceptance Sampling

Question 27. Scoring was considered not fair. By giving questions #4 and #5 such scoring weight RQC was ensuring cases would fail. There were questions about the "why" the questions were scored as they were.

Answer: Scoring is deliberately strenuous. From discussions with the Office of Inspector General, SESA Expert Panel and Field Audit Documentation workshop group, it was agreed that the main intent of an audit is two fold: to confirm that employer's records are accurate; and then to search for misclassified workers. It was determined that if an audit does not accomplish this intent, then it should not be considered a "quality" audit. As a result, these tests were assigned a pass/fail score (25 pts).

Question 28. What about field audit cases in the universe that were originally blocked claims or report delinquency assignments that were audited but fail to actually meet the ESM requirements for being counted as an audit? How will such a case fail?

Answer : The RQC staff and the Tax staff are working to resolve this issue. An additional question which asks whether or not the ESM requirements were met may be added to the FA Acceptance Sample.

Question 29. Question #9 asks about posting monetary or nonmonetary adjustments discovered during the audit. How far does the Reviewer have to go in verifying accurate posting of adjustment reports? Individual wage detail, debits or credits issued, etc.? or just verifying that the contribution report adjustments are made?

Answer: It is necessary for the reviewer to verify that the adjustment reports (monetary) were accurately posted to the SESA's system. The adjustment may be wages overreported or underreported or taxes overreported or underreported etc.

Nonmonetary adjustments must also be verified by the reviewer. Examples of nonmonetary adjustments may include: change of ownership of the business, change in partners of a partnership, change of officers in a corporation and change of address.

Wage records are not part of the RQC scope. It is not necessary for the RQC reviewer to verify that a debit or credit notice was issued as a result of the adjustment reports. These are being examined for accuracy in the Account Maintenance review function.

Function: FIELD AUDIT

Problem Type: Systems Review (continued)

Question 2. In the Review of Completed Work grid, does question "i" mean that adjustments were properly made (as required in ESM 3687, sec.I) or does it mean that adjustment reports were posted properly?

Answer: The wording will be changed from properly "made" to properly "prepared" since review of the actual posting may be done by the unit responsible for such activity. This unit may or may not be the Field Audit unit. The line of questioning is picked up in the RQC Account Maintenance Report Processing section under the System to Assure Execution of Events, question #5.

Function: FIELD AUDIT
Problem Type: Systems Review

Question 1. We Refer to the RQC Handbook, Chapter VII, Field Audit, the grid in "Review of completed Work" and question #7 which asks, "Is a periodic statewide review of completed field audits performed to ensure uniform quality throughout the SESA?"

(a) Is question #7 referring to any or all of types of reviews for items #1-6 in the grid?

(b) How should question #7 be answered if 100% of audits are reviewed on an ongoing basis?

(c) Clarify the definition for Quality Assurance--"A periodic review to measure the performance of a function at a point where errors are most likely to occur." A non-supervisory review group which reviews 100 percent of the audit cases (there is no criteria for selecting cases to be reviewed) would not meet the definition for a Quality Assurance System.

Answer:

(a) No. Questions in the grid and question #7 are to be answered separately. Question #7 is designed to cover situations where a review of audits is conducted for the entire SESA field operation to ensure consistency in quality interpretation of law etc. between the various State offices or districts.

Question #6 is the systematic review of the components in an audit.

Question #7 activities build on Question #6 functions and together are designed to ensure quality in the SESA field audit operations.

(b) It should be answered "yes". If 100 percent of the audits are reviewed on an ongoing basis as provided for by the SESA's procedures, that becomes the periodic review.

(c) That is correct. RQC's definition of "Quality Assurance" is the type of review which targets an area suspected to be in error. For instance, the Quality Assurance team may come in with the purpose of scrutinizing FA in regard to their search for misclassified workers. The intent of #1-5 in the grid is to get an idea as to what type of review is most effective in ensuring that audits are of good quality. After data are gathered RQC may be able to suggest that an overall peer review of 20 percent of Field Audits is just as effective as 100 percent of supervisory review in ensuring the accuracy of field audits.

Function: COLLECTIONS
Problem Type: Acceptance Sampling

Question 13. The RQC Collections universe includes accounts that are still to be worked by the SESA regardless of how old they are. This is in contrast with 581 items 25 and 37 where account receivables are removed after they appear for two quarters on earlier 581 reports. Is this an error?

Answer: No, the 581 is concerned only with the removal of older receivables from total receivables being reported; the Acceptance Sample deals with following SESA collection procedures. Are these cases being worked?

In the universe for Acceptance Sampling, accounts reported in items 25 and 37 may or may not be excluded. Whether accounts classified as "doubtful accounts" are to be excluded from the universe depends upon the meaning of the term "doubtful accounts" by the SESA.

If an account classified as "doubtful" meets the definition of an account "Declared Uncollectible (Writeoff) in the RQC Glossary, Appendix C, it is to be excluded.

If, however, if it is a classification used in addition to, (or prior to) "Declared Uncollectible (Writeoff) and the purpose of the classification is to denote the type of collection activity that should be followed for this account, it remains in the universe, and the reviewer will review the case to determine that appropriate SESA procedures have been followed for the case.

When determining if the use of the term "Doubtful Account" in your SESA meets the definition of declared uncollectible (writeoff), the key phrase to consider is "...no further action to be taken).".

Question 14. Scenario: SESA received the report with no money on 2/3. They billed the employer on 2/18 and received payment on 3/23. The handbook says "when full payment is received no further review of collection action is necessary." Does this mean that all the questions do not have to be answered and the case automatically passes?

Answer: No, The Reviewer should answer all of the questions. Most of the questions about actions to collect can be answered NA or INA. However, in order for the case to pass, the question asking if collection action (including tax liens) was properly released upon payment must to be answered "yes". If this question is answered "no", the case fails. The Collections Acceptance sample is being reviewed and an attempt will be made to accommodate those ARs which are paid before review of the case begins.

Function: REPORT DELINQUENCY
Problem Type: Other

Question 1. In the event of a computer problem or delays in posting contribution reports to the system etc., consider allowing States to have flexibility instead of requiring a given date (i.e., 6/30 or 7/1) for running Report Delinquencies.

Answer: States should be allowed to do R/D Computed Measures on another date in the event of a computer problem or other unavoidable circumstance. Such a change should be cleared with the Regional Representative.

Tax Function: REPORT DELINQUENCY
Problem Type: Computed Measures

Question 13. Subsidiaries not counted as active employers who may be identified as delinquent employers (reports and monies):

Note: This Q&A also appears as question #1 in the first section of these Q&As, ETA Form 581 Report, Report Delinquencies.

- (a)** Can they be counted in Report Delinquencies and in A/R?
- (b)** What is the definition for multi-unit employers?

Note: The following answer supersedes the answer to question #8 in RD Computed Measures which was issued in February 1994.

Answer: (a) If there is a report delinquency or receivable amount attributed to one unit of a multi-unit employer, the entire account is delinquent. Each unit is not counted separately but is considered jointly with the employer's other units as one report delinquency and one receivable amount attributable to one employer account.

(b) A multi-unit employer is an employer whose business is separated by location and/or organization into units, and units may or may not submit individual contribution reports under the same employer account number.

Function: CASHIERING
Problem Type: Systems Review

Question 9. The Systems Review states that a non-SESA entity doing cashiering work is not to be reviewed. What should a SESA do now? Just answer the questions that apply or what?

In the redesign of Cashiering, this matter is being considered with emphasis on the mainstream operation. A revised Systems Review and Acceptance Sample are being developed which will include reviewing of "other operations." In the interim, answer all questions which may apply to the mainstream operation as appropriate.

The new cashiering review will be introduced late in 1995 after a pilot test has been completed.

Function: STATUS

Problem Type: Acceptance Sampling

Question 16. The final question in the New and Successor Acceptance Samples seems redundant and is causing confusion:

Based on this review, did the SESA make a correct Status Determination and initial rate assignment?

Answer: This question was intended to summarize the accuracy of all aspects of the case under review. In order to clarify the intent it will be deleted and there will be separate questions in each section of the review relating to documentation and accuracy. There will be no wrap up question.

Question 17. After a predecessor account is inactivated, sometimes employers perform certain final tasks in connection with the predecessor's going out of business, i.e., disposing of assets, collection of money etc. In such situations some States set up new accounts. Should these accounts be included in the Status universe and counted for Computed Measures?

Answer: Yes, if these accounts meet the SESA's definition of employer, Status Determinations are made and rates are assigned, they should be included in the Status universe and counted for Computed Measures.

Function: STATUS

Problem Type: Computed Measures

Question 8. Scenario: A New Employer Status Determination is correctly made, however, when the determination is put into the computer system the code for "terminated" is inadvertently entered instead of the code for "new employer". Some time during the same quarter, the error is recognized and corrected. Should the account stay in the "terminated" determination count for 581 reporting or should it be subtracted when corrected? How should it be handled in the Status Acceptance Sample universes?

Answer: If the SESA truly knew the determination to be "new" but just data entered it wrong, it should be removed from the Terminated count and added to the New Employer count. The record should also be removed from the terminations sampling universe and added to the sampling universe for new determinations.

Function: GLOBAL
Problem Type: Other

Question 6. What about travel resources for the RQC reviewer in 1995? Will there be money for TA meetings like the ones conducted in 1994 and possibly a national meeting?

Answer: RQC will continue to request funds as usual to be included in State grants to help defray expenses for State staff to attend TA meetings. We are thinking of holding several multi-regional meetings instead of one national meeting so that small workshops can be held where individual States can discuss findings with the RQC design team. This will be done so that any final adjustments in sample size, lists of internal controls etc. can be made.

Function: GLOBAL

Problem Type: Acceptance Sampling

Question 4. In an Acceptance Sample consisting of less than 60, how many cases can fail and the A/S not fail?

Answer: This situation will be handled on an individual basis. Call your RO representative or the NO DP hotline (202-219-6634) and Bob Timms will provide this information.

December 1994

Tax Function: GLOBAL
Problem Type: Computed Measures

Question 7. Who will actually calculate the Computed Measures, the National Office, individual States or both?

Answer: States will be able to calculate their own Computed Measures, when all the data is available. The National Office will also routinely calculate the Computed Measures.

Tax Function: GLOBAL
Problem Type: Software

Question 6. We recommend laptop software for RQC review data entry.

Answer: All data collected for the RQC review must eventually be entered into the UI SUN computer system. This system utilizes a UNIX operating system with INFORMIX as the data base handler. Information will be keyed using a front end graphical user interfacier (GUI) which incorporates various edit and logic checking protocols. Most laptops are DOS based devices. It is not possible to easily transfer data from the laptop to the RQC system on the SUN. States may use a laptop as a note or record keeping device, however, if RQC data is entered into a laptop, it will have to be REKEYED a second time into the SUN.